

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF HENRY COUNTY WATER)	
DISTRICT NO. 2 OF HENRY, TRIMBLE,)	
CARROLL, OLDHAM, AND SHELBY COUNTIES,)	CASE NO. 9920
KENTUCKY, FOR APPROVAL OF CONSTRUCTION,)	
FINANCING, AND INCREASED WATER RATES)	

O R D E R

Henry County Water District No. 2 ("Henry No. 2") by application filed April 20, 1987, is seeking: (a) authorization to construct a \$2,054,000 waterworks improvement project; (b) approval of its plan of financing for this project and; (c) approval of increased water rates. The project funding includes a \$1,999,000 loan from the Farmers Home Administration ("FmHA"), and contributions of \$55,000 by Henry No. 2. The FmHA loan will be secured by waterworks revenue bonds maturing over a 40-year period.

The proposed construction will add two new wells, water distribution lines, two water storage tanks and expand the water treatment plant. Drawings and specifications for the proposed improvements by Sieco, Inc., of Columbus, Indiana, ("Engineer") have been approved by the Division of Water of the Natural Resources and Environmental Protection Cabinet.

Commission Staff performed a limited review of Henry No. 2's operations for the purpose of evaluating the requested increase in rates. On August 18, 1987, Staff issued its report containing

findings and recommendations related to the requested increase. Henry No. 2 did not file any comments in response to the Staff Report and did not request a public hearing.

The Staff Report, based upon the Commission's usual rate-making practices, recommended that Henry No. 2 be granted an increase in metered sales of \$219,892. Henry No. 2 requested an increase in metered sales of \$221,922. The Commission finds the recommendations contained in the Staff Report to be reasonable and, therefore, will grant the increase of \$219,892, resulting in annual operating revenues of \$858,095.

CONTINUITY OF ADEQUATE AND RELIABLE SERVICE

Henry No. 2's Engineer has provided information which indicates that reliable and adequate service can be maintained throughout the expanded system after completion of the proposed construction. The Engineer has also given his assurance on submitted reports that the proposed wells will be capable of supplying the required demand for Henry No. 2's Water Distribution System. Should the performance of the wells not reach the expected level, Henry No. 2 must take appropriate measures to maintain the level of service.

The Commission reminds Henry No. 2 of its obligation to provide adequate and reliable service to all of its customers. Henry No. 2 should monitor the adequacy of the expanded water distribution system after construction. If this monitoring indicates that the level of service is inadequate or declining, Henry No. 2 must take necessary actions to maintain the level of service in conformance with the regulations of the Commission.

RATE DESIGN

In its application, Henry No. 2 proposed a consolidated rate structure for all customers of the merged district. In its report, Staff recommended that the rate structure proposed by Henry No. 2 be accepted, but that the actual rate schedule used be based on the revenue increase recommended in the report. Therefore, the Commission is of the opinion that the rates in Appendix A will produce revenue sufficient to cover operating expenses and should be approved for services rendered.

FINDINGS AND ORDERS

The Commission, after consideration of the evidence of record, and being advised, is of the opinion and finds that:

1. Public convenience and necessity require that the construction proposed in the application be performed and that a certificate of public convenience and necessity be granted.

2. The proposed construction consists of approximately 11.4 miles of 12-, 10-, and 6-inch diameter pipelines, 2 water storage tanks, 2 new wells, and expansion of the water treatment plant, and related appurtenances. The low bids received for the proposed construction totaled \$1,527,544, which will require approximately \$2,054,000 after allowances are made for fees, contingencies, and indirect costs.

3. Henry No. 2 should monitor the adequacy of the expanded water distribution system after construction. If the level of service is inadequate or declining, Henry No. 2 should take immediate action to maintain the level of service in conformance with the regulations of the Commission.

4. Any deviations from the construction herein approved which could adversely affect service to any customer should be done only with the prior approval of the Commission.

5. Henry No. 2 should furnish duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed. Said construction costs should be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for Water Utilities prescribed by the Commission.

6. Henry No. 2's contract with its Engineer should require the provision of full-time resident inspection under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering, to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

7. Henry No. 2 should require the Engineer to furnish a copy of the "as-built" drawings and a signed statement that the construction has been satisfactorily completed in accordance with the contract plans and specifications, within 60 days of the date of substantial completion of this construction.

8. The financing plan proposed by Henry No. 2 is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its service

to the public and will not impair its ability to perform these services. The financing plan is reasonably necessary and appropriate for such purposes and should, therefore, be approved.

9. The rates proposed by Henry No. 2 would produce revenue in excess of that found reasonable herein and, therefore, should be denied upon application of KRS 278.030.

10. The rates in Appendix A are the fair, just and reasonable rates for Henry No. 2 in that they are calculated to produce gross annual revenue from metered water sales of \$834,169. These revenues will be sufficient to meet Henry No. 2's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

IT IS THEREFORE ORDERED that:

1. Henry No. 2 be and it hereby is granted a certificate of public convenience and necessity to proceed with the proposed construction project as set forth in the drawings and specifications of record herein, on the condition that the system be monitored and corrective action taken in accordance with Finding Number 3 of this Order.

2. Henry No. 2's financing plan consisting of an FmHA loan of \$1,999,000 and contributions of \$55,000 by Henry County is hereby approved.

3. The rates proposed by Henry No. 2 are hereby denied.

4. The rates and charges in Appendix A are approved for services rendered by Henry No. 2 on and after the date of this Order.

5. Within 30 days from the date of this Order, Henry No. 2 shall file with the Commission its tariff sheets setting out the rates approved herein.

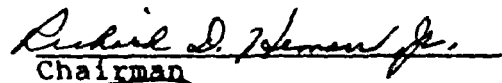
6. If the actual interest rate at the time of bond issuance is materially different then the one used in the application, Henry No. 2 shall apply for appropriate changes in its rates.

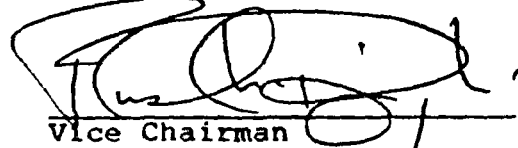
7. Henry No. 2 shall comply with all matters set out in Findings 3 through 7 as if the same were individually so ordered.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 30th day of September, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9920 DATED SEPTEMBER 30, 1987

The following rates and charges are prescribed for the customers in the area served by Henry County Water District No. 2. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

<u>Gallonge Block</u>	<u>Rate</u>
First 2,500 gallons	\$10.45 Minimum Bill
Next 2,500 gallons	3.45 per 1,000 gallons
Next 5,000 gallons	2.35 per 1,000 gallons
Next 10,000 gallons	1.55 per 1,000 gallons
Over 20,000 gallons	1.10 per 1,000 gallons
Wholesale	1.10 per 1,000 gallons